

Simcoe Erie Investors Limited
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31st



NINETEEN SEVENTY-FIVE

HEAD OFFICE

786 King Street East, Hamilton, Ontario

REGISTRAR AND TRANSFER AGENT

The Hamilton Trust & Savings Corporation
Toronto and Hamilton

AUDITORS

Coopers & Lybrand

BANKERS

The Toronto-Dominion Bank
Fulton National Bank, Atlanta, Georgia
The First National Bank of Miami, Florida
First Security National Bank of Beaumont, Texas
Toronto-Dominion Bank
Cornhill Branch, London, England

SHARES LISTED

Toronto Stock Exchange

AR21

CanCorp

INTERIM REPORT TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED
JUNE 30, 1975

Free

Simcoe Erie Investors Limited

786 KING STREET EAST
HAMILTON, ONTARIO

STATEMENT OF For the Six Months E

TO THE SHAREHOLDERS:

Pre-Tax profits for the first 6 months of 1975 continued the upward trend evidenced in the First Quarter. The improvement in our automobile experience, noted in the First Quarter, continued; however, there was a downturn in our marine results. All other divisions of our Company performed satisfactorily and so we still look forward to increased profitability in 1975.

GROSS PREMIUMS WRITTEN	
NET PREMIUMS EARNED	
PROFIT (LOSS) FROM UNDERWRITING OPERATIONS	
EARNINGS BEFORE INTEREST AND INCOME TAXES	
DEBENTURE INTEREST	
PROVISION FOR INCOME TAXES (Net of recovery of income taxes for 1975 \$144,301)	
NET EARNINGS FOR THE PERIOD	
EARNINGS PER SHARE	
Basic	
Fully Diluted	

CONSOLIDATED STATEMENT OF C For the Six Months E

RESOURCES PROVIDED

Operations

Net earnings for the period	
Deferred income taxes	
Profit from corporate joint venture	
Depreciation and amortization (net)	
Funds generated from operations	
Increase (decrease) in unearned premiums	
Increase in bank advances and accounts payable over cash and cash equivalents	

RESOURCES APPLIED

Purchase of fixed assets	
Dividends	
Reduction in minority interest	
Increase in deferred premium acquisition costs	

FUNDS AVAILABLE FOR INVESTMENT	
INVESTMENT FUNDS — BEGINNING OF PERIOD	
INVESTMENT FUNDS — END OF PERIOD	

AUGUST 29, 1975

J. C. STRADWICK JR.
President

AND ITS SUBSIDIARIES

EARNINGS

and June 30, 1975

	1975 \$	1974 \$
.....	<u>15,845,664</u>	<u>13,761,611</u>
.....	<u>5,168,110</u>	<u>5,348,162</u>
.....	<u>(377,758)</u>	<u>(224,349)</u>
.....	542,461	346,274
.....	29,658	29,658
.....	150,699	124,069
.....	<u>362,104</u>	<u>192,547</u>
.....	36¢	19.5¢
.....	30¢	16.5¢

CHANGES IN FINANCIAL POSITION

and June 30, 1975

	1975 \$	1974 \$
.....	362,104	192,547
.....	91,900	(75,902)
.....	(22,427)	—
.....	<u>(11,036)</u>	<u>13,560</u>
.....	420,541	130,205
.....	778,180	(13,468)
Accounts receivable	<u>1,094,059</u>	<u>1,053,902</u>
.....	<u>2,292,780</u>	<u>1,170,639</u>
.....	64,449	27,628
.....	49,356	49,356
.....	—	400
.....	<u>216,391</u>	<u>—</u>
.....	<u>330,196</u>	<u>77,384</u>
.....	1,962,584	1,093,255
.....	<u>16,645,518</u>	<u>14,312,670</u>
.....	<u>18,608,102</u>	<u>15,405,925</u>

TO THE SHAREHOLDERS:

Pre-Tax profits for the first 6 months of 1975 continued the upward trend evidenced in the First Quarter. The improvement in our automobile experience, noted in the First Quarter, continued; however, there was a downturn in our marine results. All other divisions of our Company performed satisfactorily and so we still look forward to increased profitability in 1975.

AUGUST 29, 1975

J. C. STRADWICK JR.
President

Simcoe Erie Investors Limited

Simcoe & Erie General Insurance Company

The Bay City General Insurance Company

Simcoe Bay Reinsurance Company Limited
of Bermuda

Sefco Limited

Robert Bradford of Canada Limited



Officers

John Conway Stradwick, Jr. President
Anthony Thomas Chmiel Executive Vice-President
Ernest Dodd Secretary
Ernest Harry Swindall Treasurer

Directors

Anthony Thomas Chmiel, Eric L. Clark, John Thomas Hamilton,
Kenneth Edward Jones, Henry Vernon Kneale, William George Smith,
John Conway Stradwick, Jr., John Charles Stradwick, Sr., William
Lloyd Stradwick, John Warren Nevil Thomas, Arnold Joseph Van
Heukelom, Malcolm McNeil Webb.

President's Report

To The Shareholders

On a consolidated basis, earnings available for shareholders in 1975 amounted to \$601,454., or 61c a share. This increase of 18c a share was accomplished despite the impact of a substantial unearned premium increase and escalating overhead costs. It is to be hoped that this latter factor will be tempered during 1976 as a result of efforts initiated by the Government in October 1975. Although our Company legally does not have to comply with the controls, it was decided that we shared a moral obligation with the rest of our industry to make them work.

With reference to our underwriting results, needed rate increase noted in last years report made it possible for our Property and Automobile divisions to improve their loss ratios substantially. Unfortunately, our Marine portfolio continued to deteriorate and as a result, it was decided during the latter part of 1975 to withdraw from all marine pool activity. This decision was based on little hope for near term adequate rates in this area.

During the year investment income increased by almost 25% as our investment portfolio reduced its difference between amortized cost and market by \$664,558. Although pleased with this more than satisfactory result, the Directors have decided to increase the bank loan using the funds to purchase shares of Simcoe & Erie General Insurance Company. It is not anticipated that premium growth during 1976 will reach the 50% level achieved in 1975, but it is recognized that insurance company expansion is limited to a multiple of its capital and surplus and for that reason it is felt additional funds are needed. It will be the intent of our subsidiary to invest monies received in high yield investments thus permitting it to pay dividends at least equal to the cost of our loan.

In closing, we continue to be optimistic that the future is bright for our Canadian owned insurance Group. Our Company is dedicated to the position that our role is to serve Canadians and by so doing, produces satisfactory profits for our shareholders. We think our record supports this goal and we have no hesitation in expecting it to continue in the future.



John G. Shaw

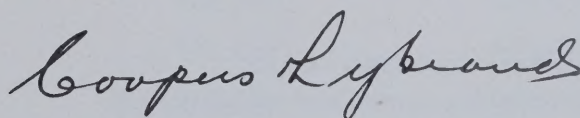
PRESIDENT

Auditors' Report

To The Shareholders

We have examined the consolidated balance sheet of Simcoe Erie Investors Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

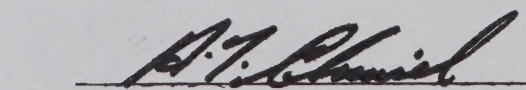
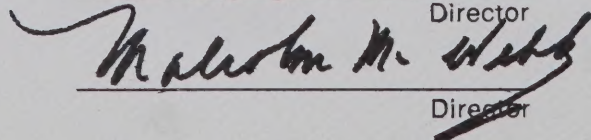


CHARTERED ACCOUNTANTS.



Consolidated Balance Sheet as at

Assets	1975 \$	1974 \$
Cash	2,265,292	862,944
Accounts receivable		
Agents	3,146,926	2,066,761
Reinsurers	343,269	353,948
Other	3,812	10,691
	3,494,007	2,431,400
Accrued interest	342,914	287,474
Investments		
Short-terms deposits	1,562,268	879,460
Bonds - at amortized cost (quoted market value 1975 - \$13,288,421; 1974 - \$11,303,228)	14,792,803	13,126,834
Stocks - at cost (quoted market value 1975 - \$2,615,433; 1974 - \$1,756,231)	3,153,092	2,639,224
	19,508,163	16,645,518
Investment in subsidiary - at cost	500	500
Investment in corporate joint venture (Note 2)	33,016	(26,673)
Advance to corporate joint venture	25,000	—
Fixed assets - at cost less accumulated depreciation (Note 3)	127,930	87,419
Other assets	375,297	424,257
Excess of cost of investment in shares of subsidiaries over net book value of assets acquired - less amortization	188,068	198,500
Deferred premium acquisition costs	1,468,687	1,154,504
SIGNED ON BEHALF OF THE BOARD	2,218,498	1,838,507
	27,828,874	22,065,843


 Director

 Director

December 31, 1975

Liabilities	1975 \$	1974 \$
Bank loan and advances (Note 4)	500,000	603,684
Unpaid claims and provision for adjustment expenses	8,581,511	7,275,093
Accounts payable		
Reinsurers	3,348,299	1,971,043
Agents	1,126,695	557,537
Other	611,960	335,285
Income and other taxes payable	706,294	503,297
Reinsurers' deposits	1,546,097	1,196,640
	15,920,856	11,838,895
Unearned premiums	5,246,655	4,117,872
Note payable	63,980	62,283
6% Convertible debentures (Note 5)	988,600	988,600
Deferred income taxes	641,600	489,300
	6,940,835	5,658,055
Minority interest	6,434	7,202
Shareholders' Equity		
CAPITAL STOCK (Notes 5 and 6)		
Authorized 2,000,000 Common shares without par value		
Issued		
987,119 Shares	2,663,641	2,663,641
RETAINED EARNINGS	1,797,108	1,294,366
	4,460,749	3,958,007
	27,828,874	22,065,843

Consolidated Statement of Retained Earnings

For the Year Ended December 31, 1975

	1975 \$	1974 \$
BALANCE - BEGINNING OF YEAR	1,294,366	968,745
Net earnings for the year	<u>601,454</u>	<u>424,333</u>
	1,895,820	1,393,078
Dividends (Note 7)	<u>98,712</u>	<u>98,712</u>
BALANCE - END OF YEAR	<u><u>1,797,108</u></u>	<u><u>1,294,366</u></u>



Consolidated Statement of Earnings

For the Year Ended December 31, 1975

	1975 \$	1974 \$
GROSS PREMIUMS WRITTEN	<u>34,275,929</u>	<u>24,402,731</u>
REVENUE		
Premiums earned	11,770,505	10,983,586
Management fees	13,563	7,497
Investment income	<u>1,508,158</u>	<u>1,234,127</u>
	<u>13,292,226</u>	<u>12,225,210</u>
EXPENSES		
Claims incurred	8,549,384	8,029,256
Commissions	1,971,343	1,712,740
Premium taxes	629,857	400,834
Other underwriting	859,667	780,142
Administration and investment	398,739	465,327
Debenture interest	<u>59,316</u>	<u>59,316</u>
	<u>12,468,306</u>	<u>11,447,615</u>
	<u>823,920</u>	<u>777,595</u>
PROVISION FOR INCOME TAXES		
Current (Note 8)	130,623	377,746
Deferred	<u>152,300</u>	<u>(53,800)</u>
	<u>282,923</u>	<u>323,946</u>
NET EARNINGS FOR THE YEAR BEFORE EQUITY INCOME AND MINORITY INTEREST	540,997	453,649
INCOME (LOSS) FROM JOINT VENTURE	59,689	(29,173)
MINORITY INTEREST	<u>(768)</u>	<u>143</u>
NET EARNINGS FOR THE YEAR (Notes 9, 10 and 11)	<u>601,454</u>	<u>424,333</u>

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1975

RESOURCES PROVIDED	1975 \$	1974 \$
Operations		
Net earnings for the year	601,454	424,333
Deferred income taxes	152,300	(53,800)
Depreciation and amortization	40,667	31,527
Amortization of the excess of cost of investment in shares of subsidiaries over net book value of assets acquired	10,432	10,432
Realization of other assets	48,960	—
Share of (profit) loss of corporate joint venture	(59,689)	29,173
Unrealized exchange (gain) loss	1,697	(345)
Minority interest share in earnings	(768)	143
Increase in unearned premiums	1,128,783	188,964
	1,923,836	630,427
Increase in accounts payable over accounts receivable	2,963,914	2,168,872
Proceeds of bank loans	—	3,684
Proceeds on disposal of fixed assets	—	9,079
	4,887,750	2,812,062
RESOURCES APPLIED		
Increase in deferred premium acquisition costs	314,183	89,640
Dividends	98,712	98,712
Repayment of bank loans	103,684	—
Advance to corporate joint venture	25,000	—
Purchase of fixed assets	81,178	55,358
Purchase of other assets	—	273,658
Purchase of shares in other companies	—	900
	622,757	518,268
INCREASE IN RESOURCES	4,264,993	2,293,794
RESOURCES - BEGINNING OF YEAR	17,508,462	15,214,668
RESOURCES - END OF YEAR	21,773,455	17,508,462

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1975

1. Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and three of its subsidiary companies, Simcoe & Erie General Insurance Company, Bay City General Insurance Company and Simcoe Bay Reinsurance Company Limited. The investment in an inactive fourth subsidiary, Sefco Limited, has not been consolidated as the accounts are not material in relation to these statements. The investment in Robert Bradford of Canada Limited, a corporate joint venture, is accounted for on an equity basis.

(b) Operations of Simcoe Bay Reinsurance Company Limited

This Bermuda-based subsidiary reports underwriting income, claims and expenses on a "year-of-account" basis. Under the "year-of-account" basis all premiums written in a particular year are credited to a suspense account for that year and left there for a period of three years. Claims and expenses arising during the three year period are then charged to the suspense account containing the premiums to which they relate. At the end of the third year the account is closed and the profit or loss taken up in earnings.

For consolidation purposes, the underwriting operations of this company have been converted to an annual basis.

(c) Basis of presentation

The accounts of the subsidiaries are included herein in accordance with generally accepted accounting principles. Adjustments have been made for consolidation purposes to convert these accounts from a statutory basis as follows:

- (i) The values of bonds and debentures have been converted to amortized cost from values authorized by the Superintendent of Insurance. Stocks are valued at cost rather than the lower of cost or market.
- (ii) Other assets, comprising automobiles, office equipment and leasehold improvements, have been capitalized and are being depreciated over their useful lives, rather than being written off when acquired.
- (iii) Deferred premium acquisition costs are those costs such as agents' commissions, premium taxes and certain other underwriting expenses which relate directly to the acquisitions of premiums. These costs, to the extent that they are considered to be recoverable, are deferred and amortized over the term of the related premiums.
- (iv) The "additional policy reserve" and "reserve for unregistered reinsurance" set up under statutory requirements have been eliminated.



(v) Provision has been made for deferred income taxes, not required under the statutory basis.

(vi) Assets and liabilities in foreign currencies have been converted to Canadian funds at rates prevailing at the balance sheet date.

(d) Amortization

The excess cost of investment in shares of subsidiaries over net book value of assets acquired is being amortized on a straight line basis over twenty years. The amount charged to earnings during the year was \$10,432. (1974 - \$10,432).

2. Joint Venture

During the year Robert Bradford of Canada Limited issued an additional fifty common shares of its capital stock thus reducing the company's interest from 50% to 33⅓% which is deemed to be effective control.

3. Fixed Assets

The balance sheet figures for fixed assets consist of the following:

	1975 \$	1974 \$
Equipment, automobiles, computer programs and leasehold improvements	279,490	198,312
Less: Accumulated depreciation and amortization	151,560	110,893
	127,930	87,419

4. Bank Loan

The common shares of a subsidiary company representing net assets of approximately \$728,000 have been pledged as security for the bank loan.

5. Convertible Debentures

The debentures are secured by a first floating charge on the assets and undertaking of the company and are convertible into common shares at \$3.75 per share on or before December 31, 1976 and at \$5.00 per share thereafter but on or before December 31, 1981: 263,627 shares have been set aside to satisfy the remaining conversion privileges.

6. Share Warrants

There are 9,670 share warrants outstanding as at December 31, 1975 which may be exchanged for common shares on the same basis as the convertible debentures described in Note 5.

7. Anti-Inflation Act

The company is subject to restraint of dividends under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975.

Under the legislation it appears that the amount of dividends which the company can declare or pay during the period from October 13, 1975 to October 13, 1976 will be limited to approximately \$98,712 (10c per common share based on the shares outstanding at December 31, 1975).

8. Income Tax Provision

The current income tax provision is shown net of \$204,365 in recoveries of prior year's taxes due to loss carry-backs in two of the subsidiaries.

9. Earnings Per Share

	1975	1974
Basic	.61c	.43c
Fully diluted	.50c	.36c

The calculation of fully diluted earnings per share assumes that all of the outstanding 6% debentures and share warrants were converted into common shares as of January 1, 1975. Earnings applicable to common shares were increased by the interest, after income tax, on the 6% debentures (\$29,539) and imputed interest on the share warrants (\$1,806). The number of common shares outstanding was adjusted to reflect the additional shares that would have resulted on conversion (273,297).

10. Statutory Information

Expenses for the year include depreciation and amortization in the amount of \$40,667 (1974 - \$31,527).

The remuneration of directors and senior officers of the company and its subsidiaries, as defined by the Business Corporations Act (Ontario) amounted to \$173,753 (1974 - \$177,769).

11. Comparative Figures

Certain of the 1974 figures have been reclassified to conform with the 1975 method of presentation.

12. Subsequent Event

Certain consolidated subsidiaries are regulated under insurance laws and are obliged to meet certain requirements as to ratios of assets to liabilities.

These subsidiaries had liabilities at December 31, 1975 in excess of the ratios allowed. The parent company, subsequent to the year-end, arranged a bank loan of \$1 million. These funds or a portion thereof will be invested in the subsidiaries in order to allow them to comply with regulations in the insurance industry.



